

Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02

L-03 NSC-05 PA-02 PRS-01 SS-15 STR-04 CEA-01 TAR-01

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TO SECSTATE WASHDC PRIORITY 8374

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E.O. 11652: N/A

TAGS: ETRD, CA

SUBJ: ANTI-INFLATION LEVY ON EXPORT SALES

REF: OTTAWA 4767

1. SUMMARY. UNDER PROPOSALS ANNOUNCED BY GOVERNMENT OF CANADA ON DECEMBER 18, COMPANIES THAT MAKE PROFITS ON EXPORT SALES THAT EXCEED ANTI-INFLATION GUIDELINES ARE TO BE SUBJECT TO A 100 PERCENT EXPORT LEVY; HOWEVER, THEY WILL BE ABLE TO OBTAIN REFUNDS LATER FOR MOST OF THE LEVY. LEVY DESIGNED TO PREVENT DIVERSION OF PRODUCTION TO LUCRATIVE EXPORT MARKET AT EXPENSE OF CANADIAN MARKET WHERE PROFITS ARE REGULATED. END SUMMARY.

2. EXPORT REVENUES IN EXCESS OF ANTI-INFLATION GUIDELINES WILL BE SUBJECT TO A 100 PERCENT LEVY UNDER PROPOSALS ANNOUNCED DECEMBER 18 BY FINMIN MACDONALD. REFUNDS OF LEVY WOULD BE MADE UNDER CERTAIN CONDITIONS. LEVY WILL BECOME RETROACTIVELY EFFECTIVE FROM OCTOBER 14, 1975, DATE OF ANNOUNCEMENT OF ANTI-
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INFLATION PROGRAM. LEGISLATION WILL BE INTRODUCED

EARLY IN 1976 AFTER FURTHER CONSULTATION WITH INTERESTED PARTIES.

3. PROPOSALS ANNOUNCED BY MACDONALD ARE TO: RECOGNIZE VALUE TO CANADA OF OBTAINING PRICES ESTABLISHED BY INTERNATIONAL MARKETS FOR CANADIAN PRODUCTS; ENSURE CANADIAN CUSTOMERS OF EXPORTING FIRMS THAT THEY ARE ADEQUATELY SUPPLIED; ENSURE THAT EXPORTING FIRMS MAINTAIN THEIR COMPETITIVE POSITION INTERNATIONALLY; AND DIRECT REFUNDS OF EXPORT LEVY TOWARDS NATIONAL GOALS.

4. EXPORT LEVY WOULD BE APPLIED TO FIRMS IN PRIVATE SECTOR WHICH ARE SUBJECT TO ANTI-INFLATION GUIDELINES ON PRICE AND PROFIT MARGINS AND WHOSE EXPORT SALES IN THEIR LAST FULL FISCAL YEAR ENDING PRIOR TO OCTOBER 14, 1975, EXCEED THE LESSER OF 10 PERCENT OF THEIR TOTAL SALES IN THAT YEAR OR \$5 MILLION. LEVY WOULD ALSO APPLY TO CANADIAN BRANCHES OF FOREIGN FIRMS WHICH ARE SUBJECT TO ENFORCEMENT OF ANTI-INFLATION GUIDELINES ON PRICE AND PROFIT MARGINS. FOREIGN BRANCHES AND SUBSIDIARIES OF CANADIAN FIRMS WOULD NOT BE SUBJECT TO LEVY.

5. SOME FLEXIBILITY WOULD EXIST IN APPLICATION OF PROFIT GUIDELINES TO A COMPANY'S EXPORT BUSINESS. COMPANY MIGHT APPLY DOMESTIC GUIDELINES IN ITS ENTIRETY ON INDIVIDUAL PRODUCTS OR PRODUCT LINES TO DETERMINE ITS EXCESS REVENUE ON EXPORT BUSINESS OR ALTERNATIVELY IT MIGHT BRING ITS WHOLE EXPORT OPERATION UNDER MARGIN RULES WHICH BASICALLY REQUIRE IT TO HOLD PROFITS AT 95 PERCENT OF THE AVERAGE OF THE FIVE FISCAL YEARS PRIOR TO START OF THE PROGRAM. THIS WOULD GIVE PRODUCERS OF COMMODITIES SUCH AS MINERALS, WHICH MOVE ON A CYCLICAL BASIS IN INTERNATIONAL MARKETS, AN OPPORTUNITY TO AVERAGE THEIR PROFITS EVEN IF THEY ARE REQUIRED TO HOLD DOMESTIC PRICES DOWN TO A COST-PLUS BASIS.

6. CORPORATIONS SUBJECT TO LEVY WOULD BE EXPECTED TO ESTIMATE AMOUNT OF LEVY FOR A FISCAL YEAR AND MAKE UNCLASSIFIED

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INSTALLMENT PAYMENTS. REFUNDS EARNED BY INVESTMENTS (PARA 7 BELOW) COULD BE OFFSET AGAINST EXPORT LEVY PAYABLE.

7. NINETY PERCENT OF LEVY WOULD BE REFUNDABLE ON A ONE DOLLAR-FOR-ONE DOLLAR BASIS FOR A COMPANY'S INVESTMENT IN APPROVED PROJECTS IN CANADA WHICH CONTRIBUTE TO EMPLOYMENT; MAINTAIN OR IMPROVE PRO-

DUCTIVE FACILITIES; EXPLORE FOR OR DEVELOP OIL, GAS AND MINERAL RESOURCES; INCREASE RESEARCH FACILITIES; IMPROVE THE ENVIRONMENT; OR CONSERVE ENERGY. SEVENTY-FIVE PERCENT OF ORIGINAL LEVY, TO EXTENT IT HAS NOT ALREADY BEEN EFFECTIVELY REFUNDED FOR APPROVED INVESTMENTS MADE, WOULD BE REFUNDABLE TO THE FIRM AT A DATE TO BE PRESCRIBED LATER BY GOVERNOR-IN-COUNCIL. THIS DATE WOULD NOT BE EARLIER THAN THREE YEARS AFTER THE END OF CONTROL PERIOD NOR LATER THAN TEN YEARS THEREAFTER.

8. OTHER PROVISIONS OF PROPOSED LEGISLATION INCLUDE: PRODUCT SUCH AS CRUDE OIL WHICH ARE EXEMPT FROM DOMESTIC GUIDELINES WOULD BE SIMILARLY EXCLUDED FROM EXPORT LEVY; LEVY WOULD NOT APPLY TO SERVICES SUPPLIED ABROAD BY CANADIAN RESIDENTS; WHERE A FIRM HAS BUSINESS ESTABLISHMENT INSIDE AND OUTSIDE CANADA, A DELIVERY OF COMMODITIES FROM CANADA TO THE FOREIGN ESTABLISHMENT WOULD BE DEEMED TO BE AN EXPORT SALE AT A PRICE EQUAL TO FAIR MARKET VALUE; LEVY WOULD BE DEDUCTIBLE IN DETERMINING INCOME TAX UNDER INCOME TAX ACT AND REFUNDS WOULD BE INCLUDED IN INCOME WHEN RECEIVED.

9. COMMUNIQUE OF DECEMBER 18 ANNOUNCEMENT BEING POUCHED.
JOHNSON

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